

COST *and* MANAGEMENT

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. CONTENTS . .

EDITORIAL	122
ACROSS THE SECRETARY'S DESK	123
CHAPTER NOTES	124
LITERATURE RECEIVED	126
CHAIN STORE TAXATION	128
DIFFERENTIAL OR MARGINAL COSTS	129
PRINCIPLES OF PUBLIC UTILITY ACCOUNTING	133
INFLUENCE OF TECHNICAL PROGRESS UPON	
SOCIAL DEVELOPMENT	136
NOTICE OF ANNUAL MEETING	144
SITUATIONS WANTED	145
CONTINUATION OF FREE ENTERPRISE	146
NEW MEMBERS	149
EXAMINATION DATES	149
HOME IMPROVEMENT LOANS	150
NATIONAL HOUSING ACT FIGURES	151
COST REDUCTION	152

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EDITORIAL

Let's Try Something

How is business? That is the question very often heard these days, and quite often the answer is unprintable. Just a day or two ago Minister of Labour Rodgers announced that more than one million people in Canada were on relief and that more than 300,000 of these were farmers and their families, principally in Saskatchewan. Not a very encouraging prospect, is it? And the least encouraging part is that the relief figures have shown a sharp upward swing since January. Usually the reverse is the case.

However, the one million is the figure given out by the authorities at Ottawa and must be regarded as official, much as we dislike it. Fancy almost ten per cent. of the population on relief, and apparently nothing concrete is being done about it.

According to the Dominion Bureau of Statistics, four of the six factors indicating the trend of economic conditions showed an advance in the week of April 1st over the preceding week. Wholesale prices continued the rather moderate upturn which began late in March, and encouraging increases were noted in car loadings, bank clearings and capitalized bond yields. Weaknesses developed in common stock prices and the volume of stock market activity slackened somewhat.

The European situation is undoubtedly having its effect on the stock market, and also on business generally, but the man in the street is still of the opinion that business could absorb many of the unemployed if it cared to.

This writer does not know whether or not this is so, but is of the opinion that business is overburdened with taxes and suggests that there may be a way out on both issues. Why should not the Dominion, in collaboration with the Provincial Governments concerned, offer to remit a certain portion of business taxation to those businesses which increased their payrolls over a given percentage?

Such a scheme would not result in a loss to the governments concerned, as those added to payrolls would not only be taken off relief but would, in addition, pay their own taxes, something they are not able to do except when employed, and the governments would gain in the long run.

A similar scheme was tried in Great Britain some years ago in connection with the Unemployment Insurance, when firms were bonused for low labour turnover, and it worked well. Since that time the scheme was abandoned in the interests of economy, and the opposite has resulted.

This may not be any part of the answer, but it may help, and it seems that something must be done and done quickly. The suggestion is

ACROSS THE SECRETARY'S DESK

offered for what it is worth, but it seems to the writer that this matter of unemployment is something for every man, woman and child in Canada to think about and try to do something about.

So long as we have one million of our population on the relief rolls, taxes will remain high and, more than that, the morale of the people is being sapped, and it is high time we tried something to even partially solve the situation.

Across the Secretary's Desk

I have been keenly interested during the fast closing season in a number of experiments that have been made in various Chapters. It would seem that the Chapters are getting away somewhat from the ordinary stereotyped form of guest speaker meeting and are going more and more to the discussion type of meeting, with the talk at the start—very short indeed.

In fact, just sufficient to provoke a discussion of length and interest on the subject. This type of meeting has been very successful wherever it has been tried, and undoubtedly will predominate next season.

For one thing, members are often diffident about asking questions of a more or less prominent guest speaker, on the assumption probably that here is an expert and a question may sound rather foolish.

On the other hand, at a discussion meeting members are prone to ask questions and to take part in a discussion, and that helps everyone present, if the questions are kept in line with the subject.

There has, however, been an attempt to start another type of meeting, both in Montreal and in Hamilton. Reports from Montreal state that the attempt was quite successful, and from personal knowledge I know that it was in Hamilton.

This is a "True or False" night, with a prepared list of questions; members of the audience answer in turn, as called upon, and state whether or not, in their opinion, the statement made is true or false. Of course, this is somewhat of a novelty and cannot be carried along indefinitely, but it has been a decided success: at times funny, and always interesting.

I met another old friend and former member of the Society recently, in the person of Frank Moffat, whom old Hamilton members will remember as a former Hamilton Chapter director until he was moved out of town by his firm.

Frank is now located at Chatham, Ontario, is looking well, is still interested in our Society, and desired to be remembered to his old friends.

In recent weeks I have met with many requests for a button, or some form of identification, in order that members may know each other at meetings, and consider the requests justified. In some of our Chapters there are, of course, many newcomers and it is hard indeed for them to remember all the faces and names of those they meet. I really think this

COST AND MANAGEMENT

is something that should be taken care of, and expect to have some information along these lines for all Chapters in the near future.

Have received several letters since the last issue of "Cost and Management," all quite flattering and complimentary, and one or two containing suggestions which will be taken under advisement. Remember, I am always glad to hear from members and would like to receive YOUR letter.

R. D.

Chapter Notes

Toronto.

The March meeting of the Toronto Chapter was something different and it was at once an outstanding success. The meetings started off with a visit to the plant of the Canadian Kodak Company at Mount Dennis, and about eighty members turned out. The party was conveyed through the plant in groups of sixteen by experienced guides, and at 5 p.m., when all had returned, the Chapter held its annual meeting, presided over by Bruce Taylor. Directors for the next season were elected and the retirement of Chairman Bruce Taylor marks the end of ten years' active association with the Chapter in one capacity or another. Bruce has done grand work and deserves a rest, but it is doubtful if he will take it.

Mr. J. W. Spence and Mr. R. S. M. Ausman moved a very hearty vote of thanks to the chairman for his splendid work, and remarked that although he was retiring from office, the Chapter was not to lose him altogether.

Following the meeting, the members adjourned to the company cafeteria for dinner, and following this the members were treated to a fine address on "Job Evaluation." Not only was the address a really fine one, but the question period showed the great interest the members had in connection with this subject.

After a short intermission, Mr. W. S. Trotman of the company staff, with the help of both still and motion pictures, gave the members a review of "Recent Developments in Colour Photography." In addition, Mr. Trotman, all unawares, had taken pictures of many of the members during the afternoon and showed these, which had been developed in colour, to bring to a close one of the most enjoyable and instructive meetings in the Chapter's history.

Hamilton.

The second March meeting of Hamilton Chapter was held on March 22nd, when two members, Mr. W. Lloyd Edwards, C.P.A., and the General Secretary, R. Dawson, each gave a short talk on "Plant Layouts" and "Setting Up Burden Rates" respectively. Both subjects created lively discussion and the meeting lasted until a late hour.

On April 5th, the meeting took the form of a "True or False" night, with more than one hundred questions asked of the two teams. It was

CHAPTER NOTES

a grand evening and everyone apparently enjoyed themselves. A money prize was awarded to the winning team, but it was promptly turned over to a local charity.

Niagara Peninsula.

The March meeting of the Niagara Chapter was held on March 15th, and the speaker was Mr. F. M. Post of Niagara Falls, N.Y., who spoke on "Accounting for Manufacturing Overhead." Mr. Post's talk was very complete and much enjoyed, as was evidenced by the discussion period. About thirty were present and the meeting was a marked success.

On April 20th, Mr. R. R. Kimmel of the G. S. May Company of Toronto will be the speaker and the subject "Unemployment and the Industrial Engineer." This meeting will be held at St. Catharines, and the members are looking forward to it with a great deal of pleasure.

Kitchener.

The largest attended and the most successful meeting yet held by the Kitchener Chapter took place on March 16th, when the speaker was Mr. W. M. Fanning, Vice-President of the Bedaux Company Inc., of New York City. The attendance was close to fifty, and those present followed Mr. Fanning with rapt attention during his talk on "General Considerations of a Standard Cost Procedure." The talk was very comprehensive and illuminating, and, as usual, the Kitchener members lived up to their reputation for asking questions.

On April 20th, Mr. G. J. Marshall of the Canadian Kodak Company of Mount Dennis will address the members on "Job Evaluation," and already the Kitchener boys are getting their questions ready.

London.

Mr. R. F. Bruce-Taylor, chairman of the Toronto Chapter, was scheduled to address the London members at their March meeting on the subject of "The Industrial Accountant from the Auditor's Viewpoint," but unfortunately was called out of town at the last moment and so was unable to appear. The Chapter officials, however, were successful in obtaining the services of Mr. George Foote of London, who spoke on "A Partnership Within a Partnership." The meeting was a most excellent one, and the discussion period probably the best in London Chapter's history.

Windsor.

The members of the Windsor Chapter were fortunate in having as guest speaker for the March meeting Mr. L. W. Downie of the Kelsey-Hayes Wheel Company of Detroit. Again there was an excellent attendance, reinforced as usual by our Detroit friends, whose presence is always welcome, and the meeting was a really good one. The subject was "Labour Standards and Controls," and it is safe to say that few, if any, left the meeting without a distinct feeling that the meeting had been well worth while.

On April 27th, Mr. J. E. Carruthers of the Ford Motor Company of Canada will speak on "Canadian Content Value," and again it is expected that there will be a most excellent attendance.

COST AND MANAGEMENT

Edmonton.

Despite very strong counter-attractions, there was a fair attendance at a meeting of the Edmonton Chapter, held at the Corona Hotel on March 30th, with Mr. W. R. Evans in the chair. The meeting took the form of a discussion meeting, with officers being elected for the coming year.

Mr. W. R. Evans, Canada Dry Ginger Ale Company, will be chairman; Mr. W. D. Sutcliffe, Great West Garment Co. Ltd., Vice-Chairman; Mr. Chas. E. Kehoe, Edmonton City Dairy, Secretary-Treasurer, and the following are directors: Miss Iva E. Crabbe, Trdueaus Cleaning & Dye-works; Mr. C. A. L. Barford, Great West Garment Company Ltd.; Mr. G. W. Andrews, Ogilvie Flour Mills Ltd.; Mr. J. W. Tupper, Sunland Biscuit Co., Ltd.; Mr. H. Fazacherley, H. H. Cooper Ltd., and Mr. A. G. Reid, McGavin's Ltd.

The next meeting will be held on April 8th, when Mr. F. D. Sutcliffe will address members on "What's Meant by Cost Accounting."

Vancouver.

Due to various causes, only a small attendance turned out for the second March meeting of Vancouver Chapter, which was a discussion meeting, led by Mr. C. A. L. Poudrier. Those who did attend, however, had a good time and a highlight was the attendance of Mr. W. J. Mundell, a former president of the Society, of Winnipeg, who happened to be in Vancouver on business.

On April 17th the members will hold a "True or False" night. This was started recently by the Montreal Chapter, and seems to have caught on, as several other Chapters are trying it out. The idea is to have two teams who answer "true" or "false" in turn to statements made by the leader, and the team obtaining the most number of points is declared the winner.

It is not only a lot of fun, but assists greatly in promoting the knowledge of those taking part.

Literature Received

Office Organization.

The Accountant. March 25th.

A description of the operations of a Dial and Automatic Balancing machine and a fine contribution to data on mechanized accounting.

The Accounting System of a Public Mental Hospital.

The Accountant. March 18th.

An article of real value, especially to those interested in this form of institution.

Standard Costs in the Linen Industry.

The Cost Accountant. February.

A short but complete and very interesting article on standard costs as used in the linen industry.

LITERATURE RECEIVED

Mechanized Accounting and its Audit Features.

The Accountants' Magazine. March.

A most extraordinarily complete article on mechanized accounting from a totally different view to that which is usually presented.

The Accounts of a Small Oil Refinery.

Canadian Chartered Accountant. April.

Another fine article in a subject about which much has been written, and considerable still remains to be written.

The Uses of Theory.

Journal of Accountancy. April.

A most intriguing article on the uses of theory in connection with Accounting.

Local Government Accounting and Auditing.

Journal of Accountancy. April.

A very complete article, being the findings of a special committee on Government Accounting, and of particular interest to those engaged in that field as either accountants or auditors.

Speeding Up Financial Statements.

The Responsibilities of the Accountant to Management

For Early Reports.

N. A. C. A. March 15th.

Two similar and yet dissimilar articles on subjects of the same nature. Both very fine articles, which point out many ways in which the presentation of financial statements can be speeded up.

Labour Control in the Sign Shop.

The Control of Direct and Indirect Labour.

N. A. C. A. April 1st.

Again we have two rather similar articles, except that one discusses the subject from a point of view of a particular industry. Both excellent and well worth reading.

Bond Investment Policies for Banks.

Michigan Business Studies.

Here is a bulletin which should be in the possession of all those interested in this subject. The bulletin, published by the School of Business Administration, University of Michigan, contains four addresses on subjects related to Bank Bond Investment Policy, by authors of wide repute in U. S. banking circles. The articles are most comprehensive and should be read by all bankers and those interested in Bond Investment Policies.

Chain Store Taxation

By

J. T. GUNN

(From "The Canadian Ass'n of Railwaymen's Journal")

The problem of the moment that acutely faces the Canadian citizen is how taxation can be brought within reasonable limits. Indeed, this fact is not only the problem of the moment but, according to our political leaders, the gravest problem, outside of war, that confronts our citizens. Recently, Hon. Mitchell F. Hepburn, Prime Minister of Ontario, stated in an address before the Empire Club, Toronto, that the increasing burden of taxation was a distinct menace to Canadian Unity and Confederation. And Mr. Hepburn pointed out that he was a staunch Canadian and Imperialist, therefore realizing the danger.

Taxation a Working Class Problem.

Everyone of us grumbles at increased taxation, but few of us take thought as to whether increased taxes are necessary, and a great many of us, I am afraid, adopt the attitude that Big Business pays the taxes. Nothing could be further from the actual situation. The worker is a consumer along with other classes in the community, and he has to pay the shot in common with them. Take the case of jam, for example; when the consumer purchases \$1.00 worth, 33 cents is paid in hidden taxes, or, in other words, the consumer receives 67 cents' worth of jam for which he pays \$1.00. This example can be duplicated hundreds of times in other lines.

Realization of Taxation Problem Sinking in Workers' Minds.

There is no doubt that a great many workers are becoming tax conscious and, in a vague way, feel the burden they labor under. It is strange, then, to find the Toronto City Council, at the behest of some of its radical elements, seeking to penalize the chain store system in that city. At first sight, many of us may be inclined to say, "Well, why shouldn't it be taxed?" Careful analysis will show, however, that where chain store taxation exists, 99 per cent. of it is paid by food chain stores, and the direct result is that the cost of the workers' food goes higher. In other words, taxation on chain stores simply means that the worker, in addition to paying the cost of duties on imported foods and other taxes, has an additional levy to pay in chain store taxation, for it is not reasonable in these days of keen competition to expect the chain store system to carry it, and under competitive stress it is unable to do so.

Radicalism Thus Increases Workers' Burden.

As in the case of the Toronto City Council, the radicals who pose as the friends of the workers and consumers are actually helping to make the load on their backs heavier. We all understand that taxation is a

DIFFERENTIAL OR MARGINAL COSTS

necessary evil, but nearly every government of whatever political shade shies away from taxes on food. It has been left to local governments, such as Toronto and a few other centres, to bring into being a policy that has been condemned as uneconomic in British countries for nearly a century. The remedy for the workers as consumers and workers is to protest vigorously in their dual capacity; individually, as citizens, and in group form through their organizations against this imposition; and if this is done this uneconomic folly can be stopped.

Differential of Marginal Costs

By

R. G. H. SMAILS

Chartered Accountant, Kingston, Ontario

[The substance of an address given at a meeting of the Society of Cost Accountants and Industrial Engineers, Toronto Chapter, on February 23rd.]

Once upon a time cost accountants would set out to find the cost of manufacturing a product. The contemporary literature gives the impression that costing procedures were prostituted to the requirements of financial accounting and that everyone was satisfied provided that the aggregate of the unit costs calculated by the cost accountant equalled the total expenses recorded in the general ledger. The authors of these procedures had in fact merely demonstrated that, as a mathematical proposition, the whole is equal to its parts. Their costs were of no significance, either absolutely or relatively.

The modern tendency amongst cost accountants is to recognize that the absolute cost of a product is undeterminate, that cost is relative to the purpose for which it is calculated, and that the purposes of cost analysis are so varied as to necessitate a number of different conceptions and measures of cost. Different types of cost calculation relative to the same product are required by management in the solution of the various problems with which management is confronted; average total costs, average variable costs, "normal" costs, and standard costs ("ideal" or "measure") are examples of these different types.*

*There has resulted from this development a sense of (a) the absurdity of legislating (for Tariff or fair-trade purposes) by reference to the cost of commodities without defining precisely the concept of cost to be employed, and (b) the futility of arguments as to whether interest is an element of cost, the fact being that interest is a cost of a certain sort which needs to be taken into account for certain purposes but not for others.

A concept of cost which does not appear to be extensively used by cost accountants but one which is essential to the solution (in their cost

COST AND MANAGEMENT

aspects) of certain problems of business management is the differential or marginal cost. As a unit cost this is the amount by which the total costs involved in a decision to produce $n + 1$ units exceed the total costs involved in a decision to produce n units. This excess is the cost really incurred on account of the additional unit of output (or any other similar unit) since it represents the costs which must be incurred if that unit is to be produced and which will not be incurred if that unit is not produced.

The illustrative table below relates to a concern which has a capital investment of \$200,000 represented by \$100,000 5% bonds, and \$100,000 common stock, to attract investment in which (having regard to the risks involved in the enterprise and to current interest rates) a return of 7% per annum is necessary. Working capital is borrowed from the bank at 6%. The capacity for which the plant was designed, on the basis of an eight-hour day is 10,000 homogeneous units per year, at which volume the average total unit cost reaches its minimum. The concept of capacity is thus an economic rather than an engineering one. The illustration deals moreover with a specific plant as it is, and is not concerned with possible extensions or improvements to that plant.

TABLE
Costs at Different Yearly Outputs
(100 per cent. capacity = 10,000 units)

Item	1	2	3	4	5
(1) Direct Costs of Operation:	0% of Capacity (Temporary)	60% of Capacity	80% of Capacity	100% of Capacity	120% of Capacity
(2) Materials		\$ 12,000	\$ 16,000	\$ 20,000	\$ 26,000
(3) Foremen	\$ 2,000	2,400	3,000	3,000	3,000
(4) Key men	4,000	4,500	5,200	5,600	7,200
(5) Machine operators		15,100	18,500	22,800	31,800
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	\$ 6,000	\$ 34,000	\$ 42,700	\$ 51,400	\$ 68,000
(6) Indirect Costs of Operation:					
(7) Engineer, stokers, sweepers, etc.		8,600	9,200	10,000	11,400
(8) Coal and materials \$	1,900	\$ 7,500	\$ 7,700	\$ 7,900	\$ 9,600
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	\$ 1,900	\$ 16,100	\$ 16,900	\$ 17,900	\$ 21,000
(9) Office, Sales, etc.:					
(10) Manager and assistants	\$ 7,000	\$ 7,000	\$ 7,000	\$ 7,000	\$ 7,000
(11) Clerical labor and materials	1,000	4,840	4,860	4,900	5,900
(12) Law and auditing		1,000	1,000	1,000	1,200
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	\$ 8,000	\$ 12,840	\$ 12,860	\$ 12,900	\$ 14,100

DIFFERENTIAL OR MARGINAL COSTS

(13) Repairs and Maintenance:					
(14) Labour	\$ 1,200	\$ 2,500	\$ 2,700	\$ 2,700	\$ 4,000
(15) Materials	200	460	480	500	1,000
	<u>\$ 1,400</u>	<u>\$ 2,960</u>	<u>\$ 3,180</u>	<u>\$ 3,200</u>	<u>\$ 5,000</u>
Overhead Charges:					
(16) Taxes, depreciation and insurance					
(17) Interest—Bonds	\$ 10,800	\$ 10,800	\$ 10,800	\$ 10,800	\$ 10,800
Capital ..	5,000	5,000	5,000	5,000	5,000
(19) Floating debt	7,000	7,000	7,000	7,000	7,000
	600	720	960	1,200	1,440
	<u>\$ 23,400</u>	<u>\$ 23,520</u>	<u>\$ 23,760</u>	<u>\$ 24,000</u>	<u>\$ 24,240</u>
(20) Total cost	\$ 47,700	\$ 89,420	\$ 99,400	\$ 109,400	\$ 132,340
(21) Units of output		6,000	8,000	10,000	12,000
(22) Average cost, unit ..		\$ 14.90	\$ 12.43	\$ 10.94	\$ 11.03
(23) Differential cost, total		\$ 48,720	\$ 9,980	\$ 10,000	\$ 22,940
(24) Differential cost, per unit		\$ 8.12	\$ 4.99	\$ 5.00	\$ 11.47

It should be noted that the cost figures in the Table include those distribution expenses which are really a part of production cost (e.g., storing, packaging, shipping and billing) but do not include any of the expenses incurred by a producer who can only sell an increased output by securing for himself a larger proportionate share of a limited market (e.g., advertising and salesmen's salaries). This abstraction is necessitated by the circumstances that the analysis based upon the illustration is appropriate only to changing supply—and not to changing demand. The figures in the Table include, moreover, a return on the whole of the investment whether represented by stock, bonds, or bank borrowing, with the result that the figures of total cost represent the amount that would have to be secured on sale of the product to pay the required return on all capital employed.

Lines (1) to (20) of the Table constitute a schedule of total outlays (by groups) involved in alternative policies from shutting down temporarily (as distinct from abandoning permanently) to producing an output 20 per cent. in excess of that for which the plant was designed. Line (22) gives the conventional average unit costs computed by dividing the output (Line 21) into the total cost (Line 20) of the same column. These average unit costs decline until the "capacity" output is exceeded. They then begin to rise, since the saving from spreading constant or predom-

COST AND MANAGEMENT

antly constant costs over a larger number of units and from buying materials in larger quantities is thereafter more than offset by decreasing efficiency of labour (due to overtime pay, a sense of security of employment, etc.) and accompanying wastage of material. Line (23) contains the total differential or marginal costs, the figure in each column being computed by subtracting from the Line (20) "Total Cost" figure in the same column the Line (20) "Total Cost" figure in the column to the left. Thus the total differential cost of an output of 6,000 units as compared with the cost of a temporary shutdown is computed as $\$89,420 - \$40,700 = \$48,720$. The unit differential cost is computed by dividing the total differential cost by the additional number of units involved, i.e., 6,000 in Column 2, $8,000 - 6,000 = 2,000$ in Column 3, and 2,000 in each of Columns 4 and 5. It will be noted that the only return on capital included in the figures of differential cost is interest on additional capital necessitated by increased output. Similarly the only depreciation, etc., included is depreciation, etc., on plant extensions necessitated by increased output—in this case, none.

The total differential cost figure in Column 2 (\$48,720) represents the amount of cash that would have to be paid out to secure an annual output of 6,000 units, beyond the amount of cash that would be paid out in maintaining the plant and labour nucleus in temporary idleness. The corresponding figure in Column 3 represents the amount of cash that would have to be paid out to secure an annual output of 8,000 units beyond the amount of cash that would be paid out to secure an annual output of 6,000 units—and so on with the other two columns. The unit differential cost figures thus represent the minimum price that must be secured for additional output if the cash receipts from that additional output are to equal the cash outgo in respect to it. It will be noticed that these differential unit costs decline to the point of capacity output and then (apparently) rise very steeply—much more steeply than average unit costs.* Were attention paid exclusively to average unit costs in formulating production and sales policies, the fact might be overlooked that if output were stepped up from 10,000 to 12,000 units per annum the additional 2,000 units would each involve an avoidable average cash outlay of \$11.47 whereas the "capacity" output would involve an avoidable average cash outlay of only \$6.87 (i.e., $\$109,400 - \$40,700$) per unit. The price

10,000

secured for the last 2,000 units produced at 120% of capacity would therefore have to be better by \$4.60 (i.e., $\$11.47 - \6.87) than the price secured for the capacity output to make that additional output as well worth undertaking as the capacity output. This circumstance is not readily discernible from a scrutiny of the trend of average unit costs and while it is accidental in the sense that the figures and conditions of the illustration are arbitrary, yet it is typical in the sense that differential or marginal costs do, in fact, bear this kind of relationship to average costs.

*In actual practice it would be necessary to attempt a calculation of

PRINCIPALS OF PUBLIC UTILITY ACCOUNTING

differential costs for much smaller increments than are used in the illustration since the differential costs cannot properly be averaged so broadly as they are here.

Further illustrations might be adduced to demonstrate that a knowledge of differential or marginal costs, while useful in the solution of problems arising out of the volume—cost—selling price relationship, is essential to the solution of other problems such as the exercise of choice between alternative uses of plant, alternative methods of production or alternative sizes of plant, and the inception of side lines to employ plant and labour when the demand for the main product is slack. The peculiar value, however, of estimates of differential or marginal costs lies in correcting certain natural errors into which a business man may be drawn by preoccupation with total and average costs whether these be actual or "standard."

To the general or financial accountant the concept of cost which has been developed in this article can hardly fail to appear elusive and unreal. It is not a tool adapted to his uses, e.g., the valuation of inventories for the purpose of preparing profit and loss accounts and balance sheets. But for the problems of economics or of business administration in the broadest

Principals of Public Utility Accounting

By

MR. GEORGE C. LUNN

B. C. Electric Railway Co. Ltd.

As Presented To

Canadian Society of Cost Accountants,

Vancouver Chapter,

On Monday, February 27th, 1939

Introductory Remarks.

A few remarks to be made here relative to what it is hoped to cover in this address, in order to make an opening.

Organization.

Owing to the large amount of capital required to perform such a service as is demanded of a Public Utility Company, which, through its numerous franchises and agreements it must guarantee to fulfill, and because of its public responsibilities, the business must of necessity be of a continuous and lasting nature. Public Utilities can be classed as corporations which possess certain franchises to use public properties or natural resources for a public purpose: usually this takes the form of street railway, electric lighting and power plants, water companies, telephone and telegraph companies and the manufacture and sale of gas.

Incorporation.

Utilities operate under what might be termed a contract granted by

COST AND MANAGEMENT

the Government through its Dominion Companies' Act, which gives them certain rights and privileges, and in return maintains a control and regulation of all business conducted under this contract.

Stock.

Stock in a company represents a unit of ownership in a corporation, whose rights must be observed in the management of a business. It can be divided into various classes in order to maintain control, and usually is split into common stock and preferred stock. The common stock usually retains the voting powers, while the preferred stock carries a definite pledge of dividend payment. Stock holders appoint the directors, the chairman of which is generally considered the negotiating head, and direct the policy of the company, whereas the president of the company is the operating head.

Control.

Utilities are controlled then by the original corporate powers granted by the Government, in most cases this means Dominion, Provincial and Municipal by the shareholders and by the separate franchises and agreements, with the various districts served. In addition to the numerous detailed reports that must be filled in and forwarded to the various Governments, their auditors come in and check all items of expenditure of the company, this being in addition to the detailed audit that must be made by a reputable firm of auditors who represent the shareholders. From the foregoing, and contrary to the general belief of the average man in the street, it can plainly be seen that a very definite control is maintained on all utility companies.

Brief Outline of Balance Sheet.

The assets of a Utility Company consist principally of capital invested in property and equipment, materials and supplies, accounts receivable and net revenues. Liabilities—capital shares, bonds, accounts payable and reserves for depreciation, etc.

Operating Accounts.

All utilities operate under a standardized system of accounts prescribed in the case of railway operations by the Interstate Commerce Commission, the light and power operations under the N. E. L.A. and the C. E. A., and the gas operations under the American and Canadian Gas Association.

Revenues.

Revenues are handled much the same presumably as in any other business, in the case of railway revenues they are based not on the actual tickets deposited in the fare boxes by passengers daily, but on the daily ticket sales made through the various ticket offices to the conductors. Light and power revenues are on the actual meter readings taken, and set up in accounts receivable, the credit to revenue being made monthly. Gas revenue is handled in much the same way.

Operating Expenses.

These consist chiefly of wages of operators, material used in operations, labor and material used on repairs to plant and equipment, adequate provisions for insurance taxes (property and income) and reserves for deprecia-

PRINCIPALS OF PUBLIC UTILITY ACCOUNTING

tion and obsolescence. Concentrating for a moment on the set-up of accounts, control is kept briefly as follows:

Railway Operations—

Ways and structures and overhead system.
Maintenance of equipment.
Superintendence of traffic and advertising.
Operation of Cars.
Transportation expenses.
Administrative and General.
Taxes.
Depreciation.

Light - Power - Gas Operations.

Production.
Transmission lines and substations.
Distribution System.
Utilization—street lighting.
Commercial—billing.
New business incl. merchandise operations.
Administrative and general.
Taxes.
Depreciation.

The general practice followed in compiling operating statement of revenues and expenses is to deduct the operating expenses before taxes and depreciation, the two latter items being deducted after a net earnings' figure has been ascertained. Comparisons are made monthly with the corresponding month of the previous year and the cumulative figures to date, until by the end of the year, the full 12 months' operations are accounted for. A further control is kept in the operating statements on car miles operated, K.W.H. sold and cubic feet of gas sold. In addition to these vital statistics such item as passengers carried, car hours operated, number of miles of track operated, average speed of cars per hour, K.W.H. generated and sold, coal carbonized in tons, residuals produced, number of customers served, meters in service, connected load in H.P., miles of gas mains in service, cubic feet of gas manufactured and sold, are compiled and scrutinized by the management in order that control can be maintained.

Where a company serves various municipalities, agreements are drawn up and control must be kept under separate operating accounts to the satisfaction of all concerned, and are consolidated at the end of each month.

Return on Investment.

Shareholders are naturally entitled to a fair return on their money invested in the same way in which any individual is entitled to a return on his money, and the basis adopted and prescribed by law is on the capital investment. This, in other words, is the total capital expenditures made in acquiring real estate, building of power plants and gas plants, railway tracks, cars and equipment, overhead lines, dams and waterways, pipe lines and other physical properties, and is divided into the net income, less the depreciation reserve to retire the properties, after operating expenses have been provided for, including depreciation and taxes, and the balance left, if any, is allocated over the shareholders on a percentage basis.

Some of these stock and bondholders, as you all know, have certain priority rights over others, depending upon the nature of their holdings, and I venture to say that by the time all expenses have been taken care of, there is very little left in the majority of utilities in operation to-day for the common stockholder, who is, after all, the owner.

Conclusion.

May I leave this thought with you. A company which can fulfill all of its obligations to its shareholders, the Government, the consuming public, the labor unions, the manufacturing companies, and its own employees, is something to respect and be proud of, and is a decided asset to the city which it serves.

Mr. Chairman and gentlemen, I thank you again for your kindness in asking me here to-night, and sincerely trust my address has been of some value and interest to your splendid association. In this sense it represents a fundamental fact.

The Influence of Technical Progress Upon Social Development

By DR. KARL T. COMPTON,

President, Massachusetts Institute of Technology

An Address Before the Seventh International Management Congress,
Washington, D.C.

"That our national health, prosperity and pleasure largely depend upon science for their maintenance and their future improvement, no informed person would deny." This opening sentence in the 1935 report of the Science Advisory Board to President Roosevelt epitomizes the judgment of that body of fifteen prominent scientists, engineers and medical experts on the present-day influence of technical progress upon social development.

It is not only scientists who hold this view. Nineteen years ago the American Federation of Labor expressed the same conviction in the following resolution:

"Whereas, the increased productivity of industry resulting from scientific research is a most potent factor in the ever-increasing struggle of the workers to raise their standards of living, and the importance of this factor must steadily increase since there is a limit beyond which the average standard of living of the whole population cannot progress by the usual methods of readjustment, which limit can only be raised by research and the results of research in industry:

"Resolved, by the American Federation of Labor in convention assembled, that a broad program of scientific and technical research is of major importance to the national welfare . . ."

Facts in support of this thesis are overpowering. Eighteen of the new industries which have grown directly out of scientific research within the average lifetime of those here to-day provide one-fourth of all the employment in the United States. The majority of the products now manufactured by electrical companies were unknown fifteen years ago. It is estimated that ninety-five per cent. of our chemical industry is based on fundamental discoveries made in university laboratories. A report of

INFLUENCE OF TECHNICAL PROGRESS UPON SOCIAL DEVELOPMENT

the Brookings Institution outlines the basic procedure necessary for economic recovery as the application of scientific methods to improve quality and decrease cost of production and to develop new products. It says that the basic necessity is to encourage science, encourage capital, and remove the artificial restrictions of regulations. Even in agriculture, perhaps the oldest of man's arts, technology has created new markets by developing transportation and storage facilities, has met the threats of food shortage for expanding populations by technical improvements in soils, seeds and farming methods, and is seeking to develop new industrial uses for farm products in order to use the surplus which can now be produced.

So I could continue to quote fact and expert opinion, but I think this is unnecessary. We may accept the fact that technology has created enormous employment and wealth, has vastly increased opportunity and has greatly reduced the hazards of sickness, famine and suffering. If all this be granted, however, there still remain many aspects of the influence of technical progress upon social development which challenge attention. I shall mention briefly four of these aspects.

(1) The Bogey of Technological Unemployment. In recent years much discussion has centred around technological unemployment—the loss of work due to obsolescence of an industry or use of machines to replace workmen or increase their per capita production. Are machines the Genii which spring from the Aladdin's Lamp of Science to supply every need and desire of man, or are they Frankenstein monsters which will destroy man who created them? Startling examples of both viewpoints can be given. I shall only try to summarize the situation as I see it, as follows:

If we look at industry as a whole, without inquiring into particular cases, we would conclude that technological unemployment is a myth, because statistics show no decrease in the fraction of our population gainfully employed during the last few generations in which machine production has become important. This is because technology has created so many new industries and has so greatly increased the market for many commodities by lowering the cost of production to make a price within reach of large masses of purchasers.

In individual instances, however, technological unemployment may be a very serious social problem—as in a town whose mill has had to shut down, or in a craft which has been superseded by a new art. Here the fact that technological unemployment does not exist as measured by overall statistics is of small comfort to the families whose wage earners have lost their jobs.

I believe that two principles should guide us in these matters: Improved products and services should be made available to the public, and not forcibly estopped to protect any entrenched business or any group of workers who would be thrown out of jobs by the change, but with this proviso: the change should be made in a manner to afford generous protection to the workers affected by it. This is a definite job for management, in which efficiency should be tempered by humane considerations (an attitude which, I believe, makes for real efficiency in the long run).

Various methods are available for reducing the shock of technological

COST AND MANAGEMENT

changes, such as retraining workers, gradual change-over to fit the normal turn-over of personnel (as followed by the telephone companies in introducing automatic switching), pensions and unemployment insurance, efficient employment agencies for labor exchange, co-operation between industries of a community to synchronize lay-offs in one company with new employment in another, etc.

In any case, I believe that the fundamental criterion for good management in this matter, as in every other, is that the predominant motive must not be quick profits, but best ultimate service of the public. This is a topic in itself which deserves much elaboration, but I must leave it to your own thoughts for interpretation and application.

(2) Technological Progress and Culture. In discussing the influence of technical progress upon social development there is a natural tendency to emphasize only the material products of technology, forgetting that social development is more an intellectual and spiritual than a material process, and overlooking the influence of technology on the cultural aspects of society. What, therefore, is the cultural influence of technology?

The first point which strikes one, in a long range view, is that man's achievement in every age has been made possible by, and limited by, the tools at his disposal. These limitations are, in fact, recognized in the names attached to the various stages of civilization, such as the Stone Age, the Bronze Age, or the Age of Steel.

The second significant fact is that technical progress has created opportunities for cultural development, by affording the necessary time and facilities. In the ancient "golden eras" when art, literature, law and philosophy made great advances, these were possible because the Egyptians, Greeks or Romans possessed slaves or, in the Renaissance of Europe, serfs, who performed the menial tasks and produced the wealth which gave time and energy for intellectual and artistic pursuits to a fortunate few. Granting the intellectual greatness of Aristotle, his achievements were certainly enhanced by his freedom from ordinary work and by the services of ten thousand research assistants, put at his disposal by King Alexander to bring him information of all sorts from all parts of the world.

In our day and generation, machines and mechanical power have taken the place of slaves in producing that large per capita productive power which makes possible time and money for education, recreation, pensions, short hours of labor, literature and news from all parts of the world, and travel. In the United States the mechanical power used is equivalent to an average of the full time work of fifty slaves for each person.

Thus technical progress has afforded opportunities for cultural improvement. To some extent these opportunities have been utilized advantageously. We wish they were utilized better, and this, again is a challenge to management, as well as to education and religion.

(3) The New Demands on Technology. A survey of present day social problems discloses some very definite directions in which technology can assist toward their solution.

Some millions of people want work—respectable, creative, remunerative, permanent employment, and not temporary makeshift jobs or doles,

INFLUENCE OF TECHNICAL PROGRESS UPON SOCIAL DEVELOPMENT

or the dangerous device of producing war materials beyond reasonable requirements for defense.

All, including I believe the administrators of the great relief agencies, and with the only possible exception of a few selfish politicians, would like to see it possible for the government to withdraw from the business of unemployment relief through the creation of new employment in the regular channels of industry, agriculture and commerce. The ideal goal is reduction of federal relief, as rapidly as regular employment can take up the slack, down to a minimum which will take care of unavoidable cases of technological unemployment in the transition period between jobs and will use this labor in the improvement of the public services and facilities for which the government is responsible.

Floods, droughts, dust storms and encroaching soil erosion have focussed attention on needs for safety and conservation on a very large scale. Acts of Congress and studies of the National Resources Committee attest the concern over problems of this type.

Without giving more examples, perhaps we can summarize by saying that the unemployed want work; industry wants profits; agriculture wants new uses for its products; national resources ought to be more wisely used; natural hazards should be curtailed; labor wants shorter hours and higher pay; all the people want more wealth, lower income taxes, better health and comfort, additional facilities and commodities.

Every one of these desirable social developments can only be realized through the action of two forces, the force of better technical developments and the force of better management. Better technical developments call for scientific and engineering research, training of research workers, adequate funds and facilities, and time. Better management, whether in business or in government, provides adequate attention to scientific research, and requires better understanding of problems, wiser formulation of policies and greater efficiency in their execution. How to achieve such things is, I believe, the greatest of all the problems before this Congress.

(4) Principles of Management. You, the members of this International Management Congress, are experts in management, whereas I am by profession a scientist. My few years of experience as executive officer of an educational institution do not qualify me as an expert in management for college faculties manage themselves and college trustees manage the business. From time to time a college president may be like a drop of oil in the machinery, or a flashlight in the dark, or a signpost at the crossroads, or a dentist in his office, or a prophet crying in the wilderness. But, when things are as they should be, there is no friction to require oil, no darkness to require light, no bad teeth to be extracted, the faculty already knows the best way at the crossroads, and everybody is exploring the wilderness. So I cannot presume even to suggest how management problems can best be understood, wise policies formulated and efficient execution assured. At most I can only venture to suggest certain general principles of management which seem to me to be fundamental.

The first of these is that management is an essential attribute of decent group life. Without it there is chaos, discord and ineffectiveness. Without

COST AND MANAGEMENT

it there is no security; and complete freedom from controls does not give liberty but rather the worst of all subjugations, anarchy without protection, but with management comes orderly procedure and directed co-operative effort so that the group becomes greater than the sum of the individuals which compose it. Undoubtedly the increasing complexities of modern life, due largely to technological progress, require a continually increasing degree and quality of group management.

The second principle is, at first glance, the anti-thesis of the first. It is that wise management involves the minimum of control and supervision consistent with reasonably smooth, co-ordinated and properly oriented operation. It is an evolutionary principle that, as individuals or groups grow in their ability to accept responsibility, the controls imposed on them are relaxed in order that they may accept and discharge responsibility. In this manner they develop their own powers and increase the contributions which they can make to their social group. This is a basic principle in training young animals and children, in training young executives and in developing divisions of an organization.

The greatest of all management problems to-day is to determine the most advantageous balance between these two principles. How much management should be exercised and to what extent should it be centralized? The question arises in business and in government.

In industrial organization, in America at least, the pendulum is swinging definitely in the direction of less centralization of management, as well as of capital and of operating plant. The reason is that experience has shown too great centralization of control to be inefficient and also hazardous. The great desire of business now is to develop personnel who can wisely discharge responsibility and take initiative, rather than to depend upon an army of obedient hard-working, but unimaginative employees taking orders from the boss.

Large groups always evolve more slowly than small groups, so it is not strange that governments in many parts of the world to-day are rapidly moving in the direction of increasing the scope of management and its greater centralization, sometimes even into the hands of one individual. This was the trend of our industrial organizations a couple of generations ago. A fair evaluation of this tendency in governments discloses that it has in many cases come about from natural causes, such as insoluble complications resulting from the Great War, or the previous relaxing of controls before a perplexed people had developed the power to accept the concomitant responsibilities, or for other reasons. As was the case in over-developed industries, the dangers in this movement in governments lie in such factors as present or future mismanagement on a large scale, disregard of the rights of other groups in the confidence and ambition of their present strength, failure to develop enough independent leadership within the group, inefficiency and inability to secure any true evaluation of results or policies because of suppression of criticism.

The dangers confronting the less centralized democratic governments, on the other hand, are likely to be indecision in crises, inconsistency of policies, inefficiency in operations, continual necessity of compromise be-



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COST AND MANAGEMENT

tween groups. We of democracies, however, believe that in the long run there is strength even in these apparent weaknesses, because they guard against rash actions, they develop the average intelligence and responsibility of the whole population and the whole setting encourages individual development and free enterprise. We find justification for our belief in the record of economic prosperity, high standard of living and fundamental happiness of the people in those countries where democracy has been a spontaneous development from within, not imposed from without.

There are very important questions of management on a large scale facing most of the people of the world to-day. Our brethren in some countries are putting their faith in the highly centralized management of dictatorships and authoritarian states. Our brethren in other countries, and we in America, have put our faith in a form of government definitely designed to serve and not to manage the citizens and to give maximum opportunity for free initiative and free expression. This situation offers a great opportunity to watch the results of the two sharply contrasting theories of management as an experiment on a colossal scale. God grant that our observation of this experiment be not interrupted by any action that will do irreparable damage to all people in both groups.

My final suggestion of a principle of management is the outgrowth of my contacts as a scientist. Experience has amply demonstrated a fact that, at first sight, seems surprising. It is that the most significant technological advances have not come out of direct efforts to make them, however well organized, but as unexpected by-products of scientific work undertaken for quite other objectives—usually for the satisfaction of scientific curiosity. Organized, directed effort is very effective in perfecting the details of a product or its production, but not in its initial discovery. This contrast is greater the more epoch-making is the new discovery.

The logical reason for this is not hard to understand. Really epoch-making discoveries are relatively unpredictable in advance. The practical solution to a difficult problem may come from any one of a multitude of directions. Really new ideas do not come to order, and are not pulled out of a hat, and who can tell in whose brain they will germinate. If an industrial research laboratory had been established a century ago to improve lamps, it would have investigated inflammable oils and gases, wicks, chimneys and refractories. Not conceivably would it have paid attention to the leakage of electric charges through the air or to the behavior of magnets, wires, acids and frogs' legs. Yet from these actually came the modern lighting devices.

I believe that the same logical and psychological principles operate in the field of management generally. A highly centralized and organized form of management, may be very effective in performing the specific functions assigned to it in the manner stipulated by headquarters, but it is not a favorable type of organization in which to take advantage of the potential genius inherent in the group which, if given opportunity, may produce better leadership, develop more advantageous objectives and more effective operations.

So I believe that experience, logic and human psychology all support

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	5.9	0
	4	0.6 7
	2.5	5
	3	0.0 0
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3	5	0.0 0
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COST AND MANAGEMENT

the view that that type of management is most likely to be successful in the long run which directs and inspires but does not too rigidly control, which offers large opportunity for initiative and for criticism, which has faith in the mass judgment of an intelligent group, and in the genius which may appear in unexpected quarters. It is qualities like these which are basic to the type of management which has found favor and success in this country, in the home, in business and in the organization of our government itself.

NOTICE OF ANNUAL MEETING

NOTICE IS HEREBY GIVEN THAT THE ANNUAL MEETING OF THE CANADIAN SOCIETY OF COST ACCOUNTANTS AND INDUSTRIAL ENGINEERS WILL BE HELD ON FRIDAY, JUNE 2nd, AT 1.15 P.M., AT THE WENTWORTH ARMS HOTEL, HAMILTON, ONTARIO.

R. DAWSON,
Secretary-Manager.

IN CONNECTION WITH THE ANNUAL MEETING, IT IS PLANNED TO HOLD A LUNCHEON MEETING AT 12 O'CLOCK SHARP, WITH A PROMINENT SPEAKER TO FOLLOW. FOLLOWING THE ANNUAL MEETING, A GOLF TOURNAMENT IS BEING ARRANGED, AND FOR THOSE IN ATTENDANCE WHO DO NOT PLAY GOLF IT IS EXPECTED THAT A VISIT TO ONE OF THE LOCAL INDUSTRIAL PLANTS WILL BE ARRANGED.

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The Continuation of Free Enterprise

By

DR. A. BASCH

General Manager, United Chemical and Metallurgical Works,
Prague, Czechoslovakia.

An Address Before The

Seventh International Management Congress, Washington, D.C.

In the present economic situation, for some years now, with the exception of a single great recovery after the war, we have seen a contradiction which expresses itself in such a way that, on the one hand, technical achievements would render it possible continually to raise general standard of living of broad sections of people in the whole world, and on the other hand one continually perceives unemployment and economic regroupments with a resultant lowering of the standard of living of various classes. It is also clear that mistakes in regard to the organization have been made, that economic exploitation is behind the technical mistakes, and that development does not progress as it could. The League of Nations and the International Chamber of Commerce particularly have made several inquiries, attempting to get at the bottom of the problem.

If one examines the world situation more closely one finds that it is, in the final analysis, still due to war and to post-war developments which have brought about social, cultural and economic transformations. In addition to that, one may ask to-day: Will it be easier to overcome the present difficulties by applying those principles which formerly prevailed or will it be necessary to introduce a new politico-economic system which regulates economic and social life, not from below, but authoritatively from above, for the purpose of re-establishing a disturbed equilibrium.

If one looks at the present situation a little closer, one finds immediately that in the international economy, free trade gives way more and more to the tendencies towards aut-archy and that, furthermore, the enterprises are being placed gradually under a control by the interior policy of the State. This, therefore, is not an economy which again finds the balance relatively promptly by itself, through the working of the price-laws. Instead, for various reasons, efforts are made to regulate the trade so as to fulfill thereby some purposes which are not always economic ones.

It goes without saying that in this connection there are considerable differences, i.e., between the countries in Central Europe and the Oversea countries. The entrepreneur in Central Europe, in the very territory in which the balance is disturbed the most, is practically in all his activities subject to a control or regulation. We only wish to state here the following: The foreign trade is not free, either for politico-commercial reasons or for reasons in connection with the foreign exchange; the social policy causes always further restrictions for the enterprises, although we do not wish to deny the justification of the social measures. If, however, the social policy forgets, as is now the case, that its highest aim must be to

THE CONTINUANCE OF FREE ENTERPRISE

raise the standard of living of the working people, and that this aim can only be reached by an increase of production and not by a new distribution of income; and if this social policy in consequence hinders the activity of enterprise and private initiative, then the direct opposite—a lowered standard of living—is obtained.

We do not wish to speak of interferences by the taxing authorities, as these are only the result of the entire economic, social and political situation. We only wish to refer quite briefly to another contrast. The contrast between the economic policy of the so-called dynamic or dictatorial and the democratic systems is already quite obvious to-day. The difference is that the economy of the former is more or less influenced statically, whilst the economy of the democratic states has retained its strong dynamic characteristics. In the dictatorial states as they are to-day, the economy, and as well of course, the entrepreneur, must be subjected more and more to the authority of the State. The economy is controlled centrally. There are virtually no real differences between a socialistic economy and the strictly-carried-out economy of a dictatorial regime. Such a policy does not have economic aims in view. Its highest aim, as we have often read and heard, is always a political one, and the home, as well as foreign trade, is therefore strictly regulated. Such regulation must always aim at the relative realization of autarchy. It is clear that in this way the effect of economic laws on the re-establishing of economic equilibrium, as always expressed by the price-laws, is eliminated immediately. There is no need to explain more fully that autarchic systems are also a cause of disturbance in world trade and in trade with the democratic States. But this raises an important question, viz.: whether and to what extent it is possible that, if the dictatorial economies continue to make head-way, such economies can exist and function side by side with the democratic economies.

We do not wish to plead here for a "free trade" in the old sense of the word, nor do we wish to affirm that it is not necessary that the State or Home Rule organizations influence the economy methodically. But it is necessary to differentiate between the temporary causes and their removal, and the alteration of the systems as a whole. We know from history, as well as from the present complicated economies, that regulation of trade by an authoritative regime brings about a static economy and a lowered living standard. On the other hand, it is clear that there are cases where, for example, an industry has to be reorganized temporarily with the help of the State, and where it is necessary to make changes in foreign policy. But, in our opinion, these are steps which should only be taken for a short time, with a view to assist the economy without affecting its structure. If one wishes to balance technical progress and economic exploitation, provision must be made in the economy for as much initiative, and free development as is granted to technical science. The problem is not to be solved separately and it is especially difficult to solve it in small economic units. It is, therefore, the duty of the Great Powers to set an example and to take such steps, through international collaboration, as will enable the smaller countries to participate in world trade by developing that trade more freely. If we believe that the regulation of economy, that

COST AND MANAGEMENT

the dictatorial economic regime, is not the right thing; that it cannot maintain a permanent economic level; if we are convinced that only private enterprise can give the economy the necessary balance inherent in the fundamental laws; then efforts should be made on all sides to remove the obstacles which stand in the way of this development. Seen from this point of view, it is also necessary to find a compromise by which the two types of economies—dictatorial and democratic—may live together. If the economic principle founded on free initiative and encouraged by the autonomy of an economy, based on free enterprise is again carried into effect, and the conviction is propagated everywhere that by this means various difficulties may be overcome, then one can hope that the growing trend toward regulation of economy will be curbed and that economic principle will gradually be carried into effect. Free enterprise economy means creating forces on which all technical progress is based. It is only necessary to remove the political, social and other obstacles which stand in the way of such technical progress. Further regulation, further systematization of economy will only bring further difficulties, tensions, waste of capital, danger of war, etc., whereas a return to economic sense, to the economic laws now so frequently denied, to private enterprise, a return to these things, with the simultaneous assistance of the State and of autonomous corporations, will bring about a situation tending toward peace and will be instrumental in re-establishing balance in the world trade, with an attendant rise in the standard of living.

Not until a more careful analysis of the present economic policies in the various countries is made will it be possible to view the various world questions now facing us in their true light. What is considered as something new and essential in the relations between the State and the economy, are, for the greater part, measures which have been caused by a temporary situation. The structural changes in the economy in most countries, but especially in Central Europe, have brought about several measures imposing a more or less important role on the State. Thus it was that, because of the unsettled nature of the economy, State help was necessary and the State often had to take decisive measures, so as to regulate important sectors of the economy. In view of the existing confusion and the unlimited possibilities for technical progress, the State is hardly able to fulfill permanently the task of economic regulation. This must remain the province of private enterprise, if the economy is to remain elastic and dynamic and hold possibilities of evolution. The modern economic and recovery policy also allocates to the State, of course, very important tasks consisting above all in properly following up the activities of economy and in taking, in due course, measures of a fundamental nature. If the economic policy of the State is being carried on in collaboration with industry, then the economic policy of the State may, relying upon the self-administration of the industry, really intervene positively and constructively. But for the State to take over the role of private industry as entrepreneur is neither desirable nor in agreement with the requirements of the economy. It is necessary to draw a line between the sphere of activity of the State and that of private industry. As to the function of the State in the sense of

NEW MEMBERS

informative activity, the present development leads always to an extension of this sphere of activity. It is also in the interest of the economy to follow up the events resulting from it and to enact, on the basis of this information, not only governmental, but also private measures.

As to the so-called regulative activity of the State in the economy, one has to distinguish strictly between it and regulating activity. The regulating activity is engaged directly in the affairs of the economy and regulates manufacturing trade, prices, etc., whilst a regulative activity is competent to intervene there where the natural course of the economic events could lead perhaps to results which are not desired. This activity may then be influenced and assisted in due course by the solidarity of the autonomous organizations of the economy. Here is a field for a collaboration between the economic policy of the State and the private economy which is really able to establish principles which may encourage a harmonious development.

New Members

Hamilton Chapter.

J. A. Wharton, Burroughs Adding Machine Co., Ltd.

W. A. Langhren, T. Eaton Co., Ltd.

S. Ellingham, Sawyer-Massey Co., Ltd.

Kitchener Chapter.

R. M. Dales, Fergus, Ont.

Windsor Chapter.

W. Harrison, Kelsey Wheel Co., Ltd.

J. B. Tennant, Hiram Walker-Gooderham & Worts Ltd.

W. O'Donnell, A. S. Fitzgerald & Co.

Non-Resident.

E. W. Munro, Parkhill Gold Mines Ltd., Wawa, Ont.

EXAMINATIONS

SOCIETY EXAMINATIONS WILL BE CONDUCTED
THIS YEAR AS FOLLOWS:

INDUSTRIAL MANAGEMENT—MONDAY, APRIL 24th,
7.00 to 10.00 p.m.

ADVANCED COST ACCOUNTING—TUESDAY, APRIL
25th, 7.00 to 10.00 p.m.

BOOKKEEPING—WEDNESDAY, APRIL 26th, 7.00 to
10.00 p.m.

ACCOUNTING—THURSDAY, APRIL 27th, 7.00 to 10.00
p.m.

FIRST YEAR COST ACCOUNTING—MONDAY, MAY
8th, 7.00 to 10.00 p.m.

THERE IS STILL TIME FOR APPLICATIONS TO
BE MADE FOR FIRST YEAR EXAMINATIONS FOR
THOSE HAVING ACCOUNTING DIPLOMA. APPLICATION
SHOULD BE MADE IMMEDIATELY TO THE
SECRETARY, 301 MACKAY BUILDING, 66 KING
STREET EAST, HAMILTON, ONT.

Home Improvement Loans

With spring weather in the offing, increased numbers of home owners are beginning preparations for improving their properties—painting, new plumbing, roofing, more convenient electrical wiring, insulation, the addition of a sun room or another bedroom, and many other improvements.

Reflecting this activity, Home Improvement loans reported in March total \$516,296.61, according to figures released to-day by Honourable Chas. A. Dunning, Minister of Finance. This total compares with \$399,325.78 reported in February, and brings the aggregate volume of loans to \$25,856,602.24 as at March 31st, 1939. The number of loans now exceed 64,700.

Since September of last year, each month has shown a steady increase in volume of loans over the corresponding month of the year previous. The volume of Home Improvement loans reported in March is approximately 15% above March, 1938.

In Ontario, an increase of 536 loans and of \$226,193.32 in amount of loans brings the total in that Province to over \$12,000,000. Quebec, with an increase of 228 loans for \$134,035.60, shows a total of 9,841 for \$4,988,548.85. British Columbia is third for the month with 142 loans amounting to \$44,350.20.

Total Home Improvement loans to March 31st and divided according to Provinces are as follows:

	Nov. 1, 1936—Feb. 28, 1939		Mar. 1-31, 1939	
Prince Edward Island.....	621	\$ 162,120.06	9	\$ 2,615.37
Nova Scotia	4,916	1,484,369.72	101	34,476.66
New Brunswick	2,435	812,579.94	49	16,668.09
Quebec	9,613	4,854,513.25	228	134,035.60
Ontario	29,401	11,981,071.64	536	226,193.32
Manitoba	3,870	1,488,064.02	55	18,435.80
Saskatchewan	1,299	445,240.62	14	3,209.35
Alberta	4,753	2,050,577.99	96	36,312.22
British Columbia	6,608	2,061,768.39	142	44,350.20
	63,516	\$ 25,340,305.63	1,230	\$516,296.61
Total Home Improvement loans:				
Prince Edward Island			\$	164,735.43
Nova Scotia				1,518,846.38
New Brunswick				829,248.03
Quebec				4,988,548.85
Ontario				12,207,264.96
Manitoba				1,506,499.82
Saskatchewan				448,449.97
Alberta				2,086,890.21
British Columbia				2,106,118.50
				<hr/> \$25,856,602.24

HOUSING ACT FIGURES

National Housing Act figures for March, showing the addition of more than \$1,500,000 to loan approvals were released to-day by Honourable Charles A. Dunning, Minister of Finance. Loans approved during the month aggregated \$1,541,664 in amount and provided for 446 family housing units. This compares with 249 units for a total of \$763,364 in February, and 328 units financed by loans of \$1,189,679 in March a year ago.

The average loan for March, 1939, is shown as \$3,457 per family housing unit. Over a quarter of the units were financed by loans of \$2,500 or less, and 83.6% of the total units were financed by loans of \$4,000 or less.

A feature of the month's operations was the approval of 33 of the 90% loans available on homes with lending values of \$2,500 or less. This compares with 13 of these loans approved in January and 12 in February, and indicates the prospect of a considerable number of these approvals this spring as the active season for residential construction gets under way.

Four additions were made to the list of communities in which Housing Act loans had been approved. This brings to 114 the number of new communities opened up to the benefits of the loaning facilities since the inauguration of National Housing Act operations last August, and increases the total number of communities in which loans have been made to 308.

After 3½ years of operation, total Dominion and National Housing Act loans now stand at \$30,628,894 as at March 31st, 1939. Of this amount, approvals during the past 12 months have accounted for \$15,605,040, or more than half the aggregate.

Total Housing Act loans to March 31st, 1939, divided according to provinces, are as follows:

Prince Edward Island	15	\$ 80,034
Nova Scotia	457	1,933,930
New Brunswick	134	546,717
Quebec	2,032	8,506,127
Ontario	3,752	14,179,208
Manitoba	288	1,099,388
Saskatchewan	14	42,500
Alberta		
British Columbia	1,322	4,240,990
	<hr/>	<hr/>
	8,014	\$30,628,894

Cost Reduction

In the Kiwanis Magazine of February there appeared an article by Merlin H. Hunter, head of the Department of Economics, University of Illinois, and under the caption "Are Taxes as Bad as That?", an article which attempted to portray the fact that, while as individuals we "cuss" taxes, we still expect to receive the services to pay for which these taxes are levied.

There is more than an atom of truth in this statement, and we would do well to reflect to see which services can be cut if we are to effect a reduction in taxation. At the same time, there is a very decided feeling that much of the money obtained through taxation (which, of course, is the only way governments have of obtaining money,) is wasted. Many are of the opinion that we in Canada are over-governed and that a reduction in the number of governments would result in a vast reduction in government expenditure and consequently in a reduction of taxation.

It does seem, on the face of it, that with but eleven millions of people in Canada, there is no necessity for ten parliaments in addition to the multitude of municipal and county governments. Undoubtedly there must be much duplication, which of course wastes money, but there is another angle to this question. With so many governments standing by "their rights" much time and money is wasted and, more than that, there is a matter of disintegration to be considered. Saskatchewan not long ago talked of breaking away, and now Northern Ontario talks of breaking away from the rest of the Province. . . . A Toronto alderman proposes a half baked idea to tax all automobiles entering Toronto and owned by Ontario taxpayers in an effort to raise more money. We pride ourselves on being a nation, but it seems very much like whistling to keep up one's courage to talk of being a nation in the face of such lack of unity as has been evident in the past year or two.

A reduction in governments may be the answer, and again it may not, but it would seem that one of the things we have to do as individual taxpayers is to tighten our belts and not to expect all that we desire unless we are prepared to pay for it. Instead of sitting up nights in an endeavour to find new methods of taxation, mostly hidden, it would seem that what we, as a nation, should do is to put into effect a real scheme of cost reduction. When a business finds it is not making profits, does it increase its selling price? No! Because it is already receiving all the traffic will bear. It endeavours to pull down its costs in order that the figures may be entered in black rather than red, and it seems to this writer that this is something governments will have to do and do quickly.

